

RECEIVED
DEPT. OF TREASURY

JUN 13 2005

LOCAL AUDIT & FINANCE DIV.

LUTHER FIRE DISTRICT NUMBER ONE
Lake County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2005

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Luther Fire District Number One	County Lake
Audit Date March 31, 2005	Opinion Date April 13, 2005	Date Accountant Report Submitted to State: June 9, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			

LUTHER FIRE DISTRICT NUMBER ONE
Lake County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-3
Basic Financial Statements:	
Government-wide Financial Statements:	
Government-wide Statement of Net Assets	4
Government-wide Statement of Activities	5
Fund Financial Statements:	
Governmental Fund:	
Balance Sheet	6
Reconciliation of Balance Sheet of Governmental Fund to the Statement of Net Assets	7
Statement of Revenues, Expenditures, and Changes in Fund Balance	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	9
Notes to Financial Statements	10-14
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	15

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

INDEPENDENT AUDITOR'S REPORT

April 13, 2005

To the Fire Board
Luther Fire District Number One
Lake County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Luther Fire District Number One, Lake County, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Fire District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Luther Fire District Number One's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Luther Fire District Number One, Lake County, Michigan as of March 31, 2005, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Fire District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2004.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

LUTHER FIRE DISTRICT NUMBER ONE
Lake County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2005

The Management's Discussion and Analysis report of the Luther Fire District Number One covers the Fire District's financial performance during the year ended March 31, 2005.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2005, totaled \$373,709.72 for governmental activities. Overall total capital assets remained approximately the same.

Overall revenues were \$115,420.78 from governmental activities. The Fire District does not receive any revenue sharing.

Taxable value increased by approximately \$2,289,757.00 or 7.2%.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Fire District and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Fire District in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Fire District as a whole using accounting methods used by private companies. The statement of net assets includes all of the Fire District's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Fire District are reported as governmental activities. This includes the General Fund.

LUTHER FIRE DISTRICT NUMBER ONE
Lake County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2005

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Fire District's funds, focusing on significant (major) funds not the District as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Fire Board also may create them. Funds are established to account for funding and spending or specific financial resources and to show proper expenditures of those resources.

The Fire District has the following types of funds:

Governmental Funds: The Fire District's activities are included in the governmental fund category. This fund is presented on the modified accrual basis, which is designed to show short-term financial information. You will note the differences between the Fire District's entity-wide statements and the fund statements are disclosed in reconciling statement to explain the differences between them. The Fire District's governmental fund includes the General Fund.

FINANCIAL ANALYSIS OF THE FIRE DISTRICT AS A WHOLE

During the year \$4,865.91 was spent on new equipment. All other General Fund money was spent for operating expenses of the Fire District.

We paid \$35,700.00 on our loan for a Fire Truck. Our original four year loan was taken out in 2002/2003 of \$79,706.37 is now down below \$22,000.00. Ellsworth Township and Newkirk Township collect voted millage to provide the payment for the Fire Truck.

Our cash position in the governmental activities remains strong.

Our external debt has two years left but is expected to be paid by the end of the 2005/2006 fiscal year.

FINANCIAL ANALYSIS OF THE FIRE DISTRICT'S FUNDS

The General Fund pays for the Fire District's governmental services. The most significant are salaries which incurred expenses of \$16,441.00 and insurance which incurred expenses of \$14,955.75.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Fire District's spent \$4,865.91 on new capital assets.

The Fire District's governmental activities paid \$33,667.43 of principal on the note payable.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

We continue to grow at a 6% rate in taxable values and voted millage collected by Ellsworth Township and Newkirk Township provide funding as requested in our annual budget.

CONTACTING THE FIRE DISTRICT'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors, and customers with a general overview of the Fire District's finances and to demonstrate the Fire District's accountability for the revenues it receives. If you have any questions concerning this report, please contact the Fire District Secretary-Treasurer at 812 Elm Street, Luther, Michigan 49656 or call (231) 797-5402.

LUTHER FIRE DISTRICT NUMBER ONE
Lake County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2005

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	<u>34 206 22</u>
Total Current Assets	<u>34 206 22</u>
NONCURRENT ASSETS:	
Capital Assets	600 182 91
Less: Accumulated Depreciation	<u>(243 314 75)</u>
Total Noncurrent Assets	<u>356 868 16</u>
TOTAL ASSETS	<u><u>391 074 38</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	<u>-</u>
Total Current Liabilities	<u>-</u>
NONCURRENT LIABILITIES:	
Note payable	<u>17 364 66</u>
Total Noncurrent Liabilities	<u>17 364 66</u>
Total Liabilities	<u>17 364 66</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	339 503 50
Unrestricted	<u>34 206 22</u>
Total Net Assets	<u>373 709 72</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>391 074 38</u></u>

The accompanying notes are an integral part of these financial statements.

LUTHER FIRE DISTRICT NUMBER ONE
Lake County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2005

		<u>Program Revenue</u>		<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants - Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS				
Governmental Activities:				
Public safety	80 913 55	111 607 18	3 780 00	34 473 63
Interest on long-term debt	<u>2 032 57</u>	<u>-</u>	<u>-</u>	<u>(2 032 57)</u>
Total Governmental Activities	<u>82 946 12</u>	<u>111 607 18</u>	<u>3 780 00</u>	<u>32 441 06</u>
General Revenues:				
Interest				<u>33 60</u>
Total General Revenues				<u>33 60</u>
Change in net assets				32 474 66
Net assets, beginning of year				<u>341 235 06</u>
Net Assets, End of Year				<u>373 709 72</u>

The accompanying notes are an integral part of these financial statements.

LUTHER FIRE DISTRICT NUMBER ONE
Lake County, Michigan

BALANCE SHEET – GOVERNMENTAL FUND
March 31, 2005

	Total (General)
<u>Assets</u>	
Cash in bank	34 206 22
Total Assets	<u>34 206 22</u>
<u>Liabilities and Fund Equity</u>	
Liabilities	
Total liabilities	-
Fund equity:	
Fund balance:	
Unreserved:	
Undesignated	34 206 22
Total fund equity	<u>34 206 22</u>
Total Liabilities and Fund Equity	<u>34 206 22</u>

The accompanying notes are an integral part of these financial statements.

LUTHER FIRE DISTRICT NUMBER ONE
Lake County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUND
TO THE STATEMENT OF NET ASSETS
March 31, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS

34 206 22

Amounts reported for governmental activities in the statement of
net assets are different because –

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the governmental funds balance sheet:

Capital assets at cost
Accumulated depreciation

600 182 91
(243 314 75)

Long-term debt liabilities are not due and payable in the current period and
therefore are not reported in the governmental funds

(17 364 66)

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES

373 709 72

The accompanying notes are an integral part of these financial statements.

LUTHER FIRE DISTRICT NUMBER ONE
Lake County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
Year ended March 31, 2005

	<u>Total (General)</u>
Revenues:	
Township of Ellsworth	58 744 49
Township of Newkirk	52 862 69
Federal grant	3 780 00
Interest	<u>33 60</u>
Total revenues	<u>115 420 78</u>
Expenditures:	
Public safety:	
Fire protection:	
Wages	16 441 00
Payroll taxes	1 257 72
Office supplies	126 77
Gas and oil	970 38
Other operating supplies	5 984 54
Insurance	14 955 75
Transportation	479 86
Utilities	6 139 77
Repairs and maintenance	3 329 01
Education	1 250 00
Miscellaneous	2 389 00
Capital outlay	4 865 91
Debt service	<u>35 700 00</u>
Total expenditures	<u>93 889 71</u>
Excess of revenues over expenditures	21 531 07
Fund balance, April 1	<u>12 675 15</u>
Fund Balance, March 31	<u><u>34 206 22</u></u>

The accompanying notes are an integral part of these financial statements.

LUTHER FIRE DISTRICT NUMBER ONE
Lake County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2005

NET CHANGE IN FUND BALANCE – TOTAL GOVERNMENTAL FUND 21 531 07

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(27 589 75)
Capital Outlay	4 865 91

Repayment of debt principal is an expenditure in the governmental funds, the
repayment does not have an effect in the statement of activities but does
reduce the debt balance in the statement of net assets.

Principal payments on long-term debt	<u>33 667 43</u>
--------------------------------------	------------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>32 474 66</u></u>
---	-------------------------

The accompanying notes are an integral part of these financial statements.

LUTHER FIRE DISTRICT NUMBER ONE
Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Luther Fire District Number One, Lake County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Fire District contain all the Fire District funds that are controlled by or dependent on the Fire District's executive or legislative branches.

The Luther Fire District Number One is a joint venture fire department supported by Ellsworth Township and Newkirk Township. Each township levies millage to support the fire department. The property tax collections and taxes receivable are recognized by the individual townships. The Fire District recognizes the funds received from the two townships as contributions from other local units.

The reporting entity is the Luther Fire District Number One. The Fire District is governed by an elected Fire Board. As required by generally accepted accounting principles, these financial statements present the Fire District as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Fire District's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government

LUTHER FIRE DISTRICT NUMBER ONE
Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Fire District reports only one fund as follows:

- The General Fund is used to record the operations of the Fire District which pertain to maintaining and operating the Fire District. Included are all transactions related to the approved current operating budget.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Fire District. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

The Fire District does not levy any property taxes.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Fire District as assets with an initial cost of more than \$2,500.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	75 years
Equipment	7-20 years

LUTHER FIRE DISTRICT NUMBER ONE
Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Fire District provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective April 1, 2004, the Fire District implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Fire District's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Fire District's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Fire District's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$356,868.16.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Fire Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Fire Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Fire Board.

LUTHER FIRE DISTRICT NUMBER ONE
Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 2 – Budgets and Budgetary Accounting (continued)

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Fire Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Fire District to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Fire Board has designated one bank for the deposit of Fire District funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Fire District's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>34 206 22</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	34 562 29
Uninsured and Uncollateralized	-
Total Deposits	<u>34 562 29</u>

The Fire District did not have any investments as of March 31, 2005.

LUTHER FIRE DISTRICT NUMBER ONE
Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2005

Note 4 – Capital Assets

Capital asset activity of the Fire District's Governmental activities for the current year was as follows:

	Balance 4/1/04	Additions	Deletions	Balance 3/31/05
<u>Governmental Activities:</u>				
Buildings	84 730 00	-	-	84 730 00
Equipment	510 587 00	4 865 91	-	515 452 91
Total	595 317 00	4 865 91	-	600 182 91
Accumulated Depreciation	(215 725 00)	(27 589 75)	-	(243 314 75)
Net Capital Assets	379 592 00	(22 723 84)	-	356 868 16

Note 5 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	Balance 4/1/04	Additions	Deductions	Balance 3/31/05
Note payable – fire truck	51 032 09	-	33 667 43	17 364 66
Total	51 032 09	-	33 667 43	17 364 66

Note 6 – Note Payable – Fire Truck

On February 21, 2003, Luther Fire District Number One obtained a loan from Lake Osceola State Bank in the amount of \$79,706.37 to partially fund the purchase of a fire truck. The loan requires four annual payments beginning February 21, 2004, in the amount of \$21,934.11, including interest at the rate of 3.95% per annum. As of March 31, 2005, the principal balance outstanding was \$17,364.66.

Note 7 – Deferred Compensation Plan

The Fire District does not have a deferred compensation plan.

Note 8 – Pension Plan

The Fire District does not have a pension plan.

Note 9 – Risk Management

The Fire District is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Fire District has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

LUTHER FIRE DISTRICT NUMBER ONE
Lake County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Township of Ellsworth	35 384 79	57 384 79	58 744 49	1 359 70
Township of Newkirk	36 859 36	52 859 36	52 862 69	3 33
Federal grant	500 00	3 700 00	3 780 00	80 00
Interest	50 00	50 00	33 60	(16 40)
Total revenues	<u>72 794 15</u>	<u>113 994 15</u>	<u>115 420 78</u>	<u>1 426 63</u>
Expenditures:				
Fire protection:				
Wages	25 380 00	25 380 00	16 441 00	(8 939 00)
Payroll taxes	1 975 00	1 900 00	1 257 72	(642 28)
Office supplies	400 00	400 00	126 77	(273 23)
Gas and oil	1 700 00	1 700 00	970 38	(729 62)
Other operating supplies	7 000 00	11 500 00	5 984 54	(5 515 46)
Insurance	15 500 00	15 500 00	14 955 75	(544 25)
Transportation	2 500 00	2 500 00	479 86	(2 020 14)
Utilities	7 000 00	7 500 00	6 139 77	(1 360 23)
Repairs and maintenance	7 500 00	7 500 00	3 329 01	(4 170 99)
Building improvements	2 500 00	2 100 00	-	(2 100 00)
Miscellaneous	2 001 00	2 676 00	2 389 00	(287 00)
Education	4 000 00	4 000 00	1 250 00	(2 750 00)
Contingency	2 000 00	-	-	(1 134 09)
Capital outlay	6 000 00	6 000 00	4 865 91	-
Debt service	-	38 000 00	35 700 00	(2 300 00)
Total expenditures	<u>85 456 00</u>	<u>126 656 00</u>	<u>93 889 71</u>	<u>(32 766 29)</u>
Excess (deficiency) of revenues over expenditures	(12 661 85)	(12 661 85)	21 531 07	34 192 92
Fund balance, April 1	<u>12 661 85</u>	<u>12 661 85</u>	<u>12 675 15</u>	<u>13 30</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>34 206 22</u>	<u>34 206 22</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

April 13, 2005

To the Fire Board
Luther Fire District Number One
Lake County, Michigan

We have audited the financial statements of the Luther Fire District Number One for the year ended March 31, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Luther Fire District Number One in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Fire Board
Luther Fire District Number One
Lake County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended March 31, 2005. The implementation of this pronouncement for the Luther Fire District Number One began with the year ended March 31, 2005. The daily operations and recording transactions did not change significantly, however, the Fire District is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Fire District's financial statements and this communication of these matters does not affect our report on the Fire District's financial statements, dated March 31, 2005.

To the Fire Board
Luther Fire District Number One
Lake County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants